Economic Trends

With a few notable exceptions, the economic recovery in Alberta has been broad based and gaining momentum. The labour market has held the strong gains it saw in March 2017 and full time employment is replacing part-time work. Retail sales, manufacturing shipments and exports have all rebounded strongly. After two years of continuous decline, the number of housing units under construction has started to rise. Non-residential construction, on the other hand, continues to decline. This month's inFocus looks at the recovery in Alberta's manufacturing sector.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (yy growth)	April	+4.7%	+9.5p.p.
Employment (thousands)	May	2,291	+1.2%
Unemployment Rate	May	7.8%	-0.2 p.p.
CPI Inflation (seasonally)	May	1.2%	-0.3 p.p.
Retail Sales	April	$6.7 B	+6.0%
Housing Starts (annualized)	May	33,107	+46.0%
Rigs Drilling (unadjusted)	June	87	+112.8%
Manufacturing Shipments	April	$5.0 B	+15.5%
Exports (unadjusted)	April	$8.4 B	+55.6%

Source: Alberta Treasury Board and Finance, Statistics Canada, CAODC, CMHC.
p.p.= percentage points.

Alberta Household Sector

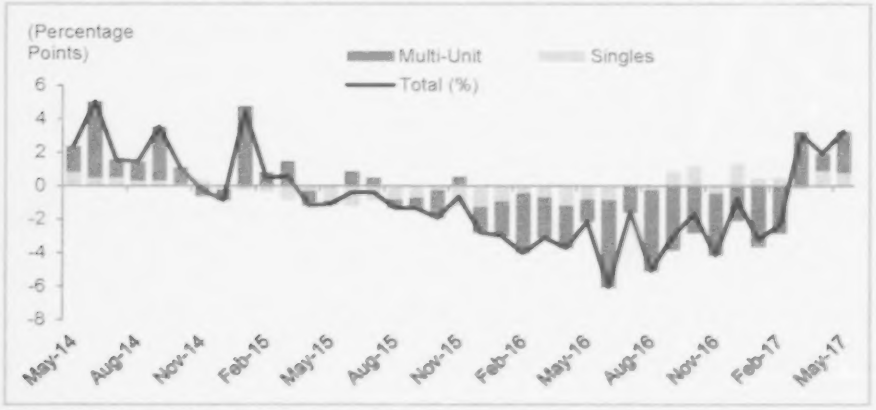
Population growth slows

Alberta's population continues to increase, but growth has slowed due to net outflows of interprovincial migrants and non-permanent residents. Alberta's population growth decelerated in the first quarter of 2017 to 1.4% year-over-year, the slowest rate since 1995. The number of non-permanent residents has declined in nine of the last 10 quarters, and the net outflows of interprovincial migrants continued for a sixth consecutive quarter. Despite the outflows, with strong immigration and a high natural growth rate, Alberta's population continued to grow at a faster pace than the Canadian rate.

Labour market improving

Although job gains have been muted over the last two months, Alberta's labour market continues to strengthen. Following a large gain in employment in March, employment has grown by a further 1,800 over the last two months. The composition of these job gains suggests strengthening underlying labour market conditions. There has been a shift to full-time and private sector jobs. Full-time employment has grown by over 20,000 in the last two months and by nearly 62,000 since the beginning of the year. Similarly, the private sector has added 19,400 positions over the last two months while self-employment declined by 16,000. The gains have also been predominately in the industries that were the hardest hit in the downturn.

Chart 1: Alberta housing construction picks up after two years of decline
Contribution to monthly change in the number of housing units under construction



Source: Canadian Mortgage and Housing Corporation

Housing activity picking up

The pace of new housing construction has remained strong and the number of units under construction has begun to increase. Over the last three months, housing starts have averaged 33,110 (annualized), the highest pace since November 2015. With the pace of housing starts improving, the number of units under construction has begun to increase (Chart 1) after reaching a five-year low in February. The number of single-detached homes under construction has steadily improved since hitting a low in August 2016, and the number of apartment units under construction has increased in the last three months after declining since

November 2015. Even with the recent gains, the number of apartment units under construction remains near the lowest level in five years as the inventory of completed and unsold units remains near multi-year highs.

Retail sales have almost fully recovered

Retail sales have increased since mid-2016 and as of April, were just below the peak in October 2014. Retail sales in Alberta reached $6.7 billion in April, a level not seen in two-and-a-half years. Retail sales have been supported by strong sales at motor vehicle and parts dealers and gasoline stations. Excluding vehicle and gasoline station sales, retail sales were virtually unchanged as improvements in some categories, most notably in electronics and appliances, were largely offset by weakness in others, such as furniture and home furnishings and food and beverage stores. Year-to-date retail sales have improved 6.9%.

Alberta Business Sector

Goods sector continues to recover

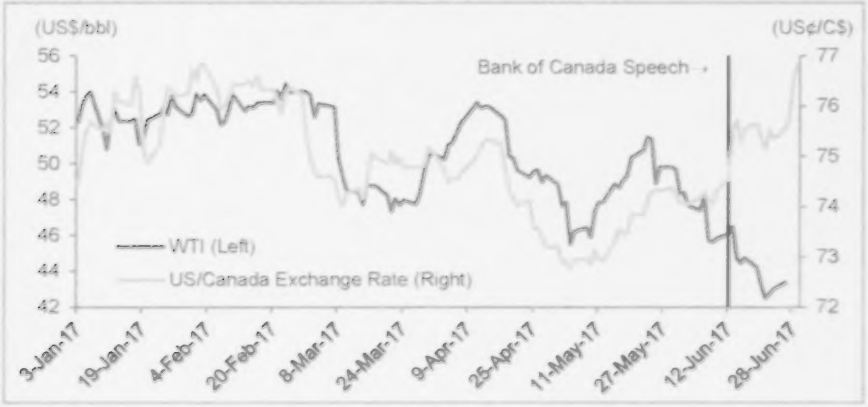
Alberta business activity continues to recover from recession levels. Both goods exports and manufacturing shipments have recovered about two-thirds of losses experienced during the downturn. Despite pulling back some gains in April, Alberta goods exports have rebounded since bottoming out early last year, with strong growth in energy exports. Energy exports were 83% higher than April 2016, benefiting from higher oil prices and expanded production. Similarly, after hitting a five-year low in February 2016, manufacturing shipments have improved with robust gains in petroleum and coal product shipments, along with increasing shipments of food, chemical, and machinery products (see this month's Infocus).

Non-residential building intentions weaken

Non-residential construction activity continued to wane as projects started prior to the downturn in oil prices are wound down. The value of non-residential building permits, a leading indicator of construction investment, fell to a six-year low in April. Non-residential permit values have fallen 24% year-to-date, largely due to a substantial drop in commercial permit values. In Edmonton, commercial permit values are down 59% year-to-date, after coming off especially high permit values early last year related to the construction of the Rogers Place arena. Elevated office vacancy rates are curbing demand for commercial building permits in Calgary, contributing to a 21% year-to-date decline.

Chart 2: Dollar rises following Bank of Canada comments

US/Canada exchange rate and the price of crude oil (WTI)



Source: Bank of Canada and the Chicago Mercantile Exchange

Business sector more optimistic

Alberta business confidence is returning after being muted by the downturn. The ATB Business Beat Index, which measures Alberta business owners' confidence in the future of their operations, surged in the first quarter of 2017 to reach the highest level since before the downturn began. 84% of Alberta business owners believed that their business would be better off or the same 6-months in the future, up from 61% during the low point of the recession. Increased business confidence has encouraged a new wave of business formations which have regained 60% of losses experienced during the downturn.

Outside Alberta

Housing markets cool

There has been a slowdown in Vancouver and Toronto's housing markets following recent policy changes. Since the BC government instituted reforms aimed at curbing speculation and foreign ownership, Vancouver has seen a sharp decline in home resales and a modest drop in prices, although both have increased in recent months. In April 2017, the Ontario government followed BC's lead and introduced broader reforms that also targeted the rental market. Consequently, Toronto home resales fell 25% in May to a four-year low, even as prices have continued to rise.

Dollar climbs on BoC signal

The Canadian dollar rose over the last half of June following a speech by a senior Bank of Canada official that stated the economy is improving and the Bank must be anticipatory in its policy decisions. These remarks contributed to a 1.7% increase in the loonie the next day, to US¢75.6/C$ (Chart 2), the largest in over a year. The increase has come even as the price of oil has weakened. Month-over-month, the Canadian dollar appreciated nearly 2% in June against the Greenback, while the WTI price of crude oil was down almost 7%.

Contact

Kathleen Macapac 780.427.8641

inFocus

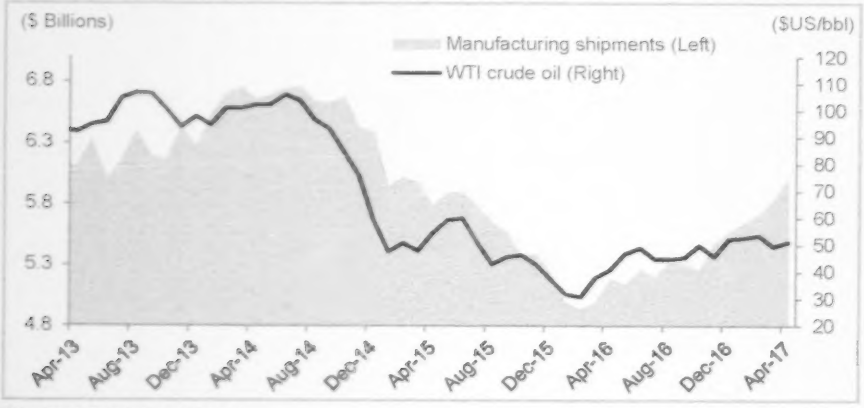
The rebound in Alberta's manufacturing

Manufacturing sales have regained almost 60% of the declines that started when oil prices began falling in the summer of 2014 and ended in February 2016 when oil prices bottomed out (Chart 1). This high sensitivity to oil prices results from the strong interconnections between the oil and gas industry and Alberta's manufacturing base. This inFocus looks at some of the factors behind the recovery in manufacturing shipments over the past year.

Oil prices boost petroleum and petrochemical prices

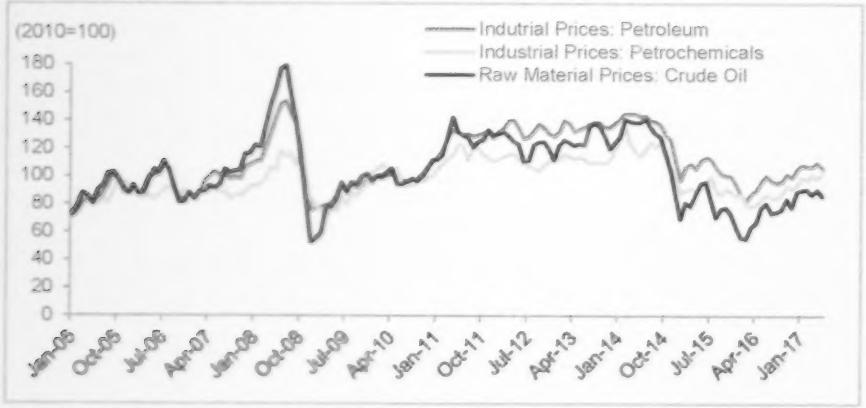
Over the last several years, around 40-50% of Alberta's manufacturing sales have been from industries that process oil and gas into other products, such as petroleum and petrochemicals. The prices of these products are closely tied to the price of oil (Chart 2). The petroleum industry was by far the biggest driver of the decline and recovery in manufacturing. Petroleum manufacturing was responsible for half of the recovery in manufacturing sales since early 2016 and more than half of the 2014-15 decline. Most of the fluctuation in sales was due to changes in price. Since refineries try to run at full capacity and capacity was largely fixed over the period, production tended to fluctuate around the same level. However, higher volumes did begin to play a role in October 2016 as higher gasoline production continued to boost sales after oil prices stabilized. This allowed petroleum sales to regain top spot as the largest manufacturing sector by the end of the year after trailing food manufacturing for much of 2016. By April 2017, petroleum and coal manufacturing sales reached the highest levels since December 2014.

Chart 1: Decline in manufacturing sales linked to oil price shock
West Texas Intermediate and Manufacturing Sales



Source: Statistics Canada

Chart 2: Petroleum and petrochemical prices are tied to oil
Raw Materials and Industrial Product Price Indices (Canada)



Source: Statistics Canada and Wall Street Journal

Higher volumes of chemicals

Though a rebound in petrochemical prices was an important part of the recovery in chemical manufacturing, increased capacity also contributed. The petrochemicals industry has expanded volumes by over 50% since late 2015. Capacity has been increased with the completion of two major expansion projects. The first of these was completed in April 2016 at an ethane production facility near Redwater. The expansion doubled the existing capacity of 73,000 bpd. The expansion of a polyethelene plant near Joffre was completed in December 2016 and boosted capacity at the facility by 40%. As a result of higher prices and expanded capacity chemical manufacturing has had an outsized role in the recovery of overall manufacturing sales, accounting for 21% of the recovery since February, but only represented 11% of the 2014-15 downturn.

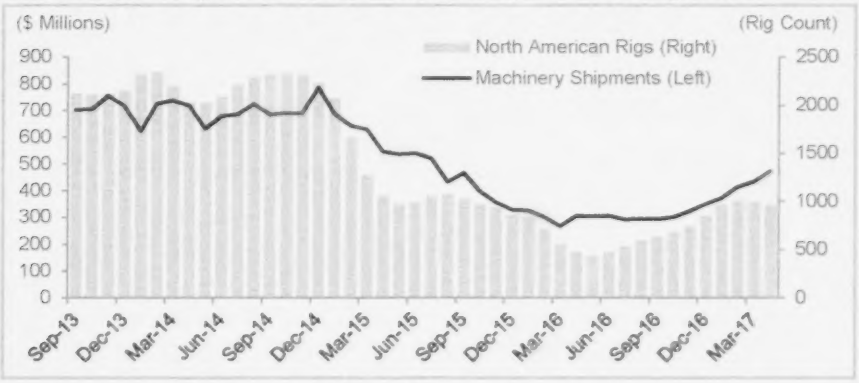
Demand from higher investment

Unlike in the petroleum and petrochemicals industries, the decline

in machinery sales in Alberta was almost entirely due to lower volumes. Much of Alberta's machinery manufacturing is sold to the oil and gas industry. Oil and gas field machinery has accounted for for around 40-60% of Alberta's machinery manufacturing over the last several years. When oil and gas capital spending started to fall in 2014 in response to lower prices, spending on oil and gas machinery declined sharply. Sales of machinery continued to decline until oil prices stabilized in late 2016. As oil prices recovered from the low in 2016, North American drilling activity and oil and gas investment picked up leading to greater demand for Alberta-built machinery and equipment (Chart 3). Since September 2016, sales machinery sales have increased 61%, though they remain 40% below the December 2014 peak.

A modest uptick in oil and gas activity is also stirring demand for fabricated metal manufacturing, which has improved nearly 20% since the end of 2016. The fabricated metals industry produces metal tools and building materials used in construction and heavy industry. This improvement has led to a modest recovery in primary metal manufacturing. The recovery has not extended to non-metallic minerals manufacturing. In particular, cement and concrete manufacuring has been limited due to ongoing weakness in non-residential building construction in the province.

Chart 3: Alberta machinery manufacturing benefits from rising drilling
North American Rig Count and Alberta Machinery Manufacturing Sales



Source: Statistics Canada and Baker Hughes

Chart 4: Food manufacturing has also been driven by prices
Meat prices and Alberta food manufacturing

Source: Statistics Canada

Food shipments remain elevated

Although food manufacturing sales have been influenced by dramatic changes in the price of meat (Chart 4). Meat sales shot up in 2014 as reduced supply in the US caused prices to spike. As a result, Alberta meat sales rose 9.2% in 2015 when sales in most other manufacturing sectors were falling. The opposite ocurred in 2016 as meat prices began sliding just as oil prices began to recover. It was not until 2017 that food manufacturing sales rose in tandem with the other manufacturing sectors as a rebound in meat prices has boosted sales so far in 2017. Food manufacturers have further benefited from stronger exports to the US due to the removal of Country of Origin Labelling restrictions as well as a lower Canadian dollar.

Wood product sales strengthen

Alberta's wood manufacturing sector has fared relatively well over the last two years. Similar to food, wood sales have benefited from a lower Canadian dollar. Moreover, much of the recent growth has come from the strengthening housing sectors in the US and other Canadian provinces. Since October 2016, the value of wood shipments has steadily risen to break a record high set in January 2006.

Conclusion

Alberta manufacturing shipments started to recover along with oil prices beginning in February 2016 with the pace of recovery accelerating towards the end of the year. Improvements in oil prices supported petroleum and coal manufacturing, while chemical manufacturing has benefited from both rising prices and expanded capacity. Higher oil prices boosted demand for Alberta's oil and gas field machinery. This, along with continued strength in both food and wood manufacturing, has maintained the recovery even as oil prices leveled off. As of April, manufacturing sales in Alberta had recovered almost 60% of the losses incurred over the downturn.

Contact

Daniel Letcher 780.427.8845